Service Date: November 4, 1987

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

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IN THE MATTER Of The Application Of THE MONTANA POWER COMPANY's Unreflected Gas Cost Account Balance as of August 31, 1987, Its Gas Tracking Proposal for the Period September 1, 1987 to August 31, 1988, and IMR Differential Recovery.	)	UTILITY DIVISION DOCKET NOS. 87.10.57 87.10.58 INTERIM ORDER NO. 5301

FINDINGS OF FACT

1. On October 19, 1987, the Montana Power Company (MPC) filed its annual gas tracking application, which was denominated Docket No. 87.10.58. On November 4, 1987, the filing was modified to reflect a lower rate base for the severance tax amortization adjustment. The filing seeks approval of deferred gas costs as well as a gas cost for purposes of computing the base cost of gas for the ensuing period. In addition to the annual tracker, MPC filed testimony and exhibits in Docket No. 87.10.57. It seeks to recover balances which have accrued because of the difference between sales made at the Interruptible Market Retention (IMR) rate and interruptible industrial gas rate. Last year's application (Docket No. 86.12.68) included the difference as part of the tracker filing.

2. The rate and revenue impacts of the filings are as follows:

	Firm	Interruptible Industrial	-Utility	Total
Gas Cost Reduction	$ (99,281)	$ (25,835)	$ (26,969)	$ (152,085)
Adj. Unreflected Gas Cost Balance (8/31/87)	(2,144,465)	(533,928)	(557,358)	(3,235,751)
Rev. Req. Adjustment Associated with				
- Continuing Amort. of:				
1. A&S and Energy Oils	(138,993)	(34,447)	(35,959)	(209,399)
2. Bond-Fogelson	(19,856)	(4,306)	(4,495)	(28,657)
3. Sev. Tx. & Work Int.	(19,856)	(4,306)	(4,495)	(28,657)
A&S and Energy Oils asic Unit Amort. Change	19,856	4,306	4,495	(28,657)
Unreflected gas costs Balance:Currently in Rates *(8/31/86)*	$ 2,839,430	$ 706,163	$ 737,15l	$ 4,282,744
Total Increase, Dkt. 87.10.58	$ 436,835	$ 107,647	112,370	5,656,852
Add: 90% of IMR Revenue Differential	1,489,212	370,305	396,555	2,246,072
Less: Differential Currently In Rates	$ (555,972)	$(137,788)	$(143,834)	(837,594)
Total Increase, Both Dkts	$ 1,370,075	_ _ _ _ _ _ _ _ _ _ _	$ 355,091	$ 2,065,330 ===========
Sales Volumes Estimated	19,856,154	$ 340,164	4,494,822	
Unit Increase/Mcf	$.069	$.079	$.079	
Increase	2.09%	2.08%	2.42%	

3. With respect to the above schedule, the Commission notes the following:

A. Once again, an overcollection exists in the deferred account. The estimated balance at November 1, 1987, would be $1,221,460. Much of this problem has occurred because of delayed tracker filings. The PSC is encouraged by MPC's earlier filing this year.

B. Both the 34% tax rate and new capital cost of 10.34% have been incorporated in calculations of rate base effects of various amortizations. The PSC finds the forthright presentation of these adjustments to be consistent with previous interim and final orders.

C. MPC's "A&S and Energy Oils" prospective adjustment to compensate for a declining market is proper for interim purposes.

D. Inclusion of 90% of the IMR revenue differential is consistent with previous interim orders. The IMR revenue differential amount of $2,246,072 includes a remaining balance from last year of $243,501, rounding error of ($8,579) and a balance for the 12 months ended 8/31/87 of $2,011,150. When grossed up to the 100% level, the 8/31/87 balance is $2,234,609. This amount results from below otherwise applicable tariff sales to Stauffer (137,060 Mcf @ 14.9), Stone Container (1,869,234 Mcf @14.9), Pfizer (286,738 Mcf @14.9) and MSU (124,000 Mcf @ 14.9). The deviation ranges from about $ .31/Mcf to about $1.06/Mcf. This deviation is indicative, but not determinative of MPC's intent to maximize revenues from these sales, thereby insuring that other ratepayers won't be required to unduly subsidize these four customers.

4. MPC seeks current gas cost recovery according to the following mix:

Supply/Cost	Mcf @14.9	Cost (U.S.)	Average $/Mcf
Regan			
Purchase	181,997	$249,312	$1.370
Aden			
Purchase	3,153,389	$3,562,676	$1.130
Royalty	4,898,617	1,582,694	$0.323
Fee	329,400		
Co-Use	(628,605)		
Average Aden	7,752,801	$5,145,370	$0.664
Montana			
Purchase	13,644,272	$29,803,843	$2.184
Royalty	6,913,744	$ 1,724,243	$0.250
Co-Use	(1,027,901)		
Average Aden	19,530,115	$31,528,186	$1.614
Storage Net Withdrawal	0	0	0
Subtotal Gas Supply	27,464,913	$36,922,868	$1.344

Less Canadian Utili- Ties Credit	(57,194)	($77,213)	$1.350
Gas cost To MT Mkt.	27,407,719	$36,845,655	$1.415

5. The above schedule implies gas purchases of 29,121,419 Mcf to yield the stated gas supply after transmission losses/compression losses of 5.69%. The proposed Montana tracking market of 26,945,764 Mcf @ 14.9 implies distribution losses of 4.97% This compares with 1.27% for the Great Falls Gas Company, although these percentages aren't weighted for miles of distribution line. These losses will be monitored closely, particularly since MPC's 55 year old backbone transimssion line is being replaced with multimillion dollar, state-of-the-art facilities.

6. It is unclear from sales volumes presented whether or not the effect of MPC's new 1988 marketing program have been included. MPC has projected that it may increase sales volumes 1.5% over base levels. In future filings, the Commission requests that MPC provide a complete explanation by category of differences between actual and projected sales volumes.

7. The Commission finds the mix to be proper for interim purposes. However, it observes that:

A. As explained in testimony, Montana purchase gas take-or-pay requirements have increased, principally because of one producer. Through discovery, the Commission has learned that the additional supply is somewhat more expensive than the average cost of Montana purchase gas. However, the incremental volumes have increased Montana purchase gas take-or-pay requirements by only1% - 2%.

B. This year's projected mix doesn't include Montana "spot market" gas. Last year's actual purchases included 770,915 mcf of spot gas @ 14.9 at a cost of $1.288/Mcf. MPC likely could have purchased more, but didn't because of warm weather conditions and Montana purchase gas take-or-pay requirements. This years increase in Aden purchase gas may supplant the need for Montana spot market purchases.

C. The ration of Aden royalty gas in the Aden mix has fallen fairly significantly in the 12 month estimate case i.e. September 1987 – August, 1988. The PSC has preferred and ordered that about 70% of the Aden mix be royalty gas. MPC has also operated its Canadian system in this manner for several years. The commission is also aware, however, that the price of Aden purchased gas has declined to about $1.13/Mcf @ 14.9. Additional purchases of this rrelatively cheap source would allow the preservation of royalty gas, both Montana and Canadian, for future ratepayers. The Commission expects, however, that a complete explanation will be forthcoming before any final order in Docket No. 87.10.58 is issued.

D. It is unclear how Montana and Aden royalty ga relate to their reserve life index and deliverability. In future filings, the PSC requests that MPC address these topics.

8. For interim purposes, the Commission finds the unit increases per Mcf as shown in finding No. 2 to be proper. By reference, approval of these increases signify interim approval of:

A. The September 1, 1986 through August 31, 1998 gas supply operation, and associated Unreflected Gas Cost Account Balance and its adjustments as of August 31, 1987, and its amortization in rates;

B. The projected tracking market for the 12-month period ending August 31, 1988;
C. The projected sources of supply anticipated to be used to serve this same tracking market;
D. The cost of the supply to serve the projected tracking market;
E. Cancellation of the unit amortization included in the current gas rate schedules, as provided for in the proposed rate schedules, and the transfer of the estimated remaining balance as of November 1, 1987, to the Unreflected Gas Cost Account Balance for the l2-month period ending August 31, 1987, for amortization over the next 12-month period;
F. The revenue requirement adjustment associated with the continuing amortization of the A&S and Energy Oils Settlement;
G. The revenue requirement adjustment associated with the continuing amortization of the Severance Tax and Working Interest Settlements;

H. The revenue requirement adjustment associated with the continuing amortization of the Bond-Fogelson Settlement;

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I. The basic unit amortization change of the A&S and Energy Oils Settlement 5-year amortization, caused by the lower tracking market;

J. The September 1, 1986 through August 31, 1987 90 percent IMR Revenue Differential Balance, and the associated adjustment as of August 31, 1987, and its recovery in rates.

K. Cancellation of the unit amortization included in the current rate schedules, as provided for in the proposed rate schedules, the transfer of the estimated remaining balance as of November 1, 1987 to the 90 percent IMR Revenue Differential Balance for the 12-month period ending August 31, 1987, for amortization over the next 12 months.

CONCLUS IONS OF LAW

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1. Montana Power Company is a corporation providing gas services within the State of Montana, and**,** as such, is a "public utility" within the meaning of Section 69-3-101, MCA.

2. The Commission properly exercises Jurisdiction over Montana Power Company's natural gas utility operations under Title 69, Chapter 3, MCA.

3. The Commission may approve increases or decreases in races on an interim basis, pending a hearing on the merits (69-3-304).

ORDER

1. The Commission orders Montana Power Company to file rate schedules reflective of the Findings of Fact above to be effective for services rendered on and after November 4, 1987.

2. A notice of opportunity for public hearing will be issued in the future to allow parties the option of pursuing items of interest to them.

3. Any refunds shall include interest calculated at MPC's return on equity.

DONE AND DATED at Helena, Montana this 4th day of November, 1987, by a 5 to 0 vote.

BY ORDER OF THE MONTNA PUBLIC SERVICE COMMISSION

CLYDE JARVIS, Chairman

HOWARD L. ELLIS, Commissioner

TOM MONAHAN, Commissioner

DANNY OBERG, Commissioner

JOHN B. DRISCOLL, Commissioner

ATTEST:

Ann Purcell
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days See 38.2.4806, ARM.